

AR79

ELDORADO

ELDORADO NUCLEAR LIMITED

ANNUAL REPORT 1976

HIGHLIGHTS

ELDORADO

ELDORADO NUCLEAR LIMITED

(\$ in thousands)	1976	1975
Sales	\$47,708	\$48,499
Net earnings	4,045	9,715
Capital expenditures	16,201	6,262
Depreciation and amortization	5,813	3,216
Working capital	57,639	69,413
Long term debt	59,272	55,640
Shareholder's equity	56,127	52,081
Production (thousands)		
Uranium oxide (lbs. U ₃ O ₈)	1,188	986
Uranium hexafluoride (lbs. U)	7,331	5,433
Uranium dioxide (lbs. U)	1,113	1,188
Employees at year end	1,105	910
Return on capital employed	3.4%	8.7%

Eldorado Nuclear Limited, incorporated under the Canada Corporations Act, is engaged in various aspects of the nuclear fuel cycle. The Company's Beaverlodge operations, in northwestern Saskatchewan, produce uranium concentrates for markets in Canada and throughout the world. The refinery, located in Port Hope, Ontario, produces all the uranium dioxide powder used in domestic CANDU reactors, as well as uranium hexafluoride needed as feed material for enrichment plants for foreign light-water reactors. The Port Hope plant also produces depleted uranium metal for radiological shielding and other applications. The Company's head office and R&D laboratories are in Ottawa.

The Company's objective is to make a growing contribution toward satisfying Canadian energy requirements while maximizing Canada's position in international markets for nuclear fuel.



The Honourable A. W. Gillespie, P.C.,
M.P.
Minister of Energy, Mines & Resources

Dear Mr. Gillespie:

On behalf of the Board of Directors, I hereby present the Annual Report of Eldorado Nuclear Limited for the fiscal year ended 31 December 1976.

The Company's total revenue in 1976 was \$47,707,734, a slight reduction from \$48,499,229 in 1975. Consolidated net earnings were \$4,045,160 in 1976, compared with \$9,714,642 in 1975. This decline in net profits was primarily due to a change in product mix during the calendar year, combined with higher overall operating costs and the full cost of an aggressive exploration program.

The net profits of the Company are expected to return to the \$10 million level in 1977 as a result of improved prices, increased volumes of production and sales, and greater operating efficiency. However, I must point out that the Atomic Energy Control Board has notified the Company that after 31 December 1976 export permits for shipment of nuclear materials produced in Canada will only be approved if the governments of the countries in which the customers reside have entered into safeguards arrangements satisfactory to Canada. During 1977, Eldorado has commitments to deliver refined uranium from Canadian resources to customers in three countries — Germany, Sweden, and Japan — which have not yet concluded such agreements with Canada. If the Company is prevented from completing deliveries to customers in these countries throughout 1977, the profit currently forecast for the year will decline by approximately 40 per cent. The Atomic Energy Control Board has advised us that Canadian officials will continue their efforts to conclude suitable safeguards arrangements as soon as possible. In the meantime, we believe that it will be feasible to re-schedule deliveries. The Company should not be adversely affected in the long-term.

The year 1976 marked the 50th anniversary of Eldorado. Originally a gold-mining enterprise, Eldorado has evolved through pioneering applications for the unique properties of radium and uranium to its present position as an important supplier of nuclear fuel with

1,105 employees and total assets of \$126 million. It is therefore appropriate that the year 1976 marked the completion of a comprehensive plan for long-range expansion that anticipates capital expenditures of approximately \$500 million over the next ten years to increase the Company's resource base and production capabilities. We believe that the Company's cash flow over this period will be sufficient to fund the anticipated capital investment and to fully repay the outstanding loans to Canada, on schedule. Despite some setbacks in reactor schedules, and certain questions by a concerned public, nuclear energy is becoming accepted as a principal source of electrical energy in Canada and throughout the world. Therefore, only an ambitious program can take advantage of the opportunities presented by the growth in demand for nuclear fuel.

In developing our plans, we are also conscious of the necessity to maintain organizational strength in all aspects of our business to create and operate the expanding enterprise. Therefore, the Company began aggressive training and evaluation programs to assist in the development of its employees and to recruit additional managerial, professional, technical and operating personnel.

It is with pleasure that I report the addition of three vice-presidents during 1976. Mr. R. G. Dakers was appointed Vice-President responsible for research and development, environmental matters, and all aspects of technology. Mr. George Boyce was appointed Vice-President responsible for sales and market development, and Mr. M. J. Moreau was appointed Vice-President responsible for exploration and resource acquisitions.

The Company's analysis of projected Canadian uranium mine output and worldwide demand for uranium hexafluoride (UF₆) resulted in a decision to bring a new Ontario uranium refinery into production by 1980 at an estimated cost of \$80 million. After an exhaustive study of potential sites, management concluded that lands under Eldorado's control at Port Granby — midway between Port Hope and Bowmanville — satisfied all the essential requirements for an integrated refining and waste-management complex. In addition, this

proposed site would also permit the Company to maintain its existing Port Hope operations and facilitate the Port Hope clean-up on a cost-effective basis, with a minimum environmental impact. No construction can begin until all federal, provincial and municipal authorities with jurisdiction in these matters agree that a new refinery is a desirable addition to the region. In order to assist the public in understanding both the pros and cons of the proposed plan, a comprehensive information program has been initiated in the region. This program, together with public hearings, are a prerequisite of the approval process.

In 1976, the Saskatchewan Government introduced revised uranium royalty regulations that will significantly increase the Province's share of the revenues derived from future production. Nevertheless, the Government recognized some of the industry's needs for a return that would ensure continued exploration and development.

As a result, Eldorado resumed implementation of its expansion plans at Beaverlodge. If the Company is successful in attracting and retaining sufficient skilled manpower, the mine and rehabilitated mill should be capable of producing 1.8 million pounds of mine concentrates a year by 1979, approximately the production levels achieved in the early 1960s.

In addition to substantial sums for mine development and milling and extraction facilities, as well as improved tailings and waste management systems, the Company in 1976 spent \$4 million to begin a three-year program to expand housing facilities for the increased labour force required to sustain the higher output.

In view of the fact that the Athabasca region of Saskatchewan is expected to be an important source of uranium in the 1980s, the Company opened an office in Saskatoon to co-ordinate its many activities in the province. Eldorado also continued extensive investigations into the feasibility of constructing a refinery in Saskatchewan.

During the year, the Auditor General completed his study of the financial management and control practices of federal Crown corporations. In this report, Eldorado was singled out, from among 27 Crown corporations studied, as the only one that "appears to be truly

commercially oriented and financially viable". As such, the Auditor General recommended that Eldorado — and other Crown agencies in a similar position which did not come under his review — should be exempt from the kind of central direction he proposed for those corporations that "are financially dependent on the public purse or carry on government-type activities".

The report suggested that in every likelihood circumstances are sufficiently different in Crown corporations properly classified as commercial and financially viable "to permit their management the type of planning and accountability that the market place imposes on privately-owned organizations".

In this context it must be emphasized that Eldorado has over the years consistently met this market test by competing in both domestic and international markets on the same basis as all other corporations. The Directors and management have always placed heavy emphasis on the accountability imposed by the necessity for financial viability.

One of the all-important factors that will ultimately determine the course of future energy developments in this country is the perception and attitude of the Canadian people. A major survey taken last year by York University's Institute of Behavioural Research, on behalf of the Canadian Nuclear Association, provided some encouraging evidence on the extent of the public's appreciation of the vital issues involved. The survey indicated that a substantial proportion of the population recognized the very clear danger of Canada running out of energy to meet its growing needs within the next five years. Of those knowledgeable about nuclear power, more than two-thirds approved its development to help avert such a shortage.

At the same time, however, the study also underlines the need for a continuing effort to create a wider public understanding of the energy situation that confronts us, and of the vital role that nuclear power can play in providing substantially increased volumes of electricity at relatively low cost, with minimal risk to human health and safety and minimal disturbance to the natural environment.

The importance of broadening public understanding was brought sharply into focus by the 1976 policy paper published

by the federal Government, *An Energy Strategy for Canada*, which anticipated that an increase of from 8 to 11 times our present output of nuclear-generated electricity would be required by 1990.

We believe that Eldorado will be able to contribute to the public's understanding of the Canadian nuclear fuel industry through the Company's information programs and especially the public hearings that will be held in connection with the proposed new Ontario refining and waste-management complex.

Eldorado will continue to strive to play a leading role in expanding Canadian uranium resources in a manner that will ensure that the maximum benefits are derived from this unique element at a minimum risk to the health and safety of its employees and the general public. In addition, the Company will continue to seek every possible opportunity to ensure that these uranium resources are up-graded to the greatest extent prior to export.



Nicholas M. Ediger,
Chief Executive Officer

EXPLORATION

The Exploration Division completed its second full year of renewed activity with a strengthened staff and a growing series of programs directed to exploring the most favourable areas in Canada for economic deposits of uranium. Field examinations, property evaluations and exploration projects undertaken by the Company, directly or in partnership with others, ranged from British Columbia to Newfoundland and included eight provinces and both territories. At year-end, the Company was involved in 26 separate projects of which 19 were joint ventures with Canadian or foreign partners. Eldorado acts as operator or manager in 12 of these ventures. During the year 105,764 feet of drilling was carried out. Eldorado, through joint ventures and on its own account, has an interest in over 8.5 million acres across Canada.

The Company continued to concentrate exploration activities along the edge of the Athabasca sandstone basin in Alberta and Saskatchewan. The main objective was to locate high-grade deposits capable of being mined by open-pit methods. Eight separate programs are under way with a number of joint-venture participants. Some of the projects are scheduled for drilling in early 1977.

A large area in Quebec along the La Grande River east of James Bay was explored for the third year by a joint-venture group. The search for uranium deposits is centered in and around the Sakami sandstone formation, where a 50,000-foot drilling program is scheduled for early 1977 on specific targets. At year-end, Eldorado acquired several permits elsewhere in Quebec where similar sandstone basins occur. Joint-venture agreements in these areas are under negotiation.

Regional programs were carried out in Manitoba, the Yukon, and the Northwest Territories. These were generally of a "grass roots" nature, although limited drilling was completed on uranium occurrences in the Wernecke Mountains in the Yukon.

The Division's group stationed at Beaverlodge continued detailed examination of mineral dispositions in the vicinity of the mine. Activities included geologic mapping, geochemical and geophysical surveys, and drilling on new and previously known occurrences. Several deposits of small tonnage poten-

tial were tested, and two of these were considered worthy of further development by the Mining Division.

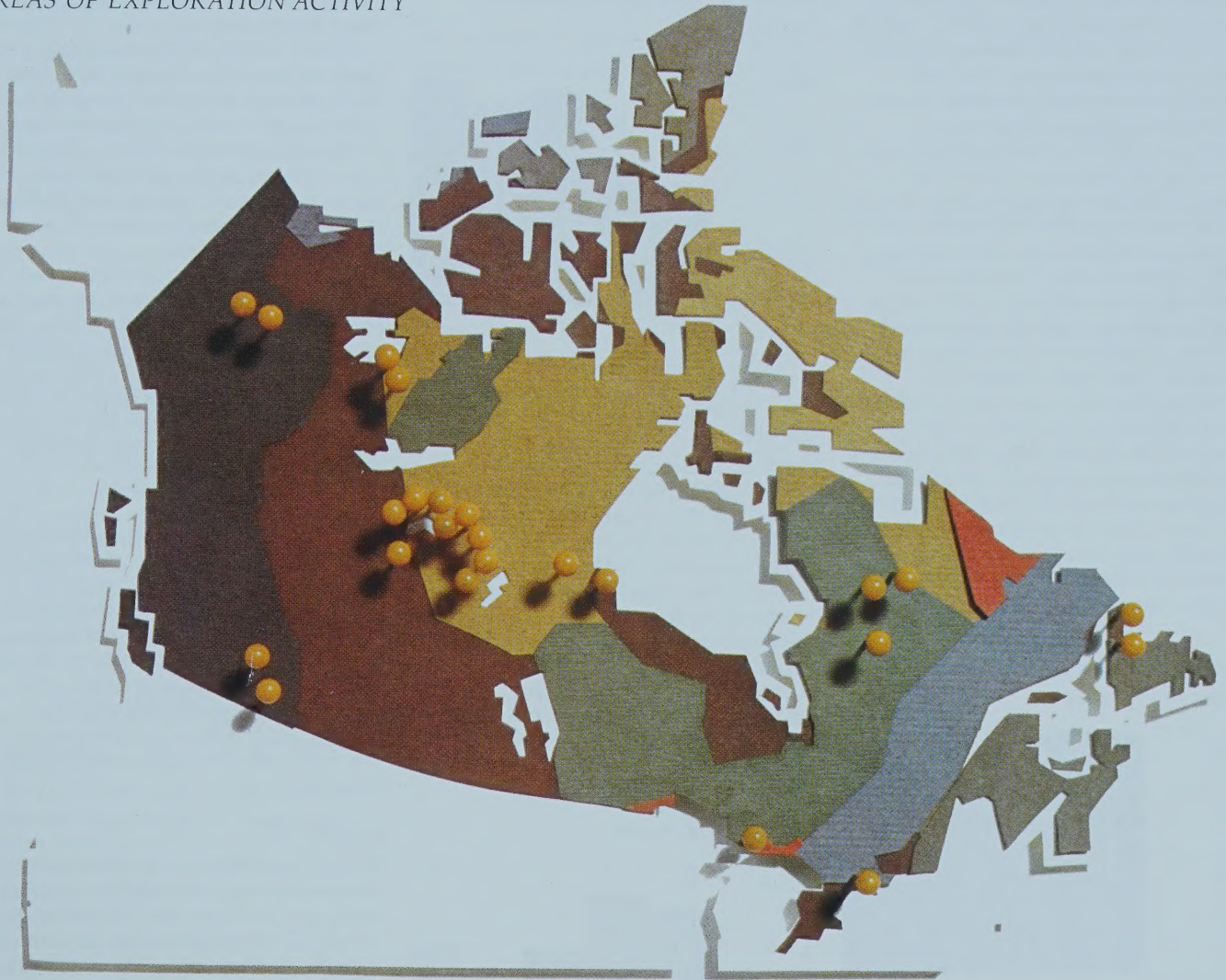
A policy of entering into joint ventures at an early stage of exploration has allowed Eldorado to play an important role in stimulating the search for uranium in Canada. Exploration expenditures in 1976 were slightly under the \$4.5 million budget, but through risk-sharing the Company participated in programs totalling \$8 million. This represents 16 per cent of the total estimated exploration expenditures for uranium in Canada in 1976.

Eldorado's expenditures are expected to reach \$5 million in 1977. Aggressive exploration will continue on the Company's available land position, and several target areas are scheduled for drilling during the coming year.

In future, as targets are identified and as projects mature, the Company will allocate an increasing share of exploration funds to drilling.



AREAS OF EXPLORATION ACTIVITY



JOINT VENTURE PARTNERS (1976)

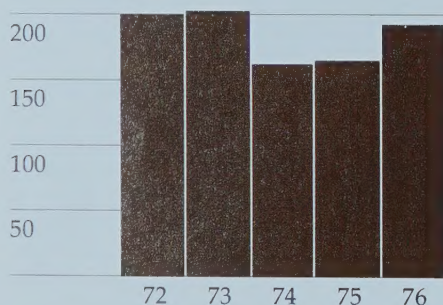
Amok Limitée (France)	Imperial Oil Limited
Aquarius Mines Limited	Manitoba Minerals Limited
Aquitaine Company of Canada Limited	Mountain Minerals Limited
Central Electricity Generating Board (U.K.)	Power Reactor and Nuclear Fuel Development Corporation (Japan)
Chevron Canada Limited	Radiometric Surveys Limited
Conwest Exploration Company Limited	Saskatchewan Mining Development Corporation
Electrowatt Limited (Switzerland)	Seru Nucléaire Limitée (France)
Empresa Nacional del Uranio, S.A. (Spain)	Shell Canada Resources Limited
Famok Limited (France)	Société de développement de la Baie James
Goldak Exploration Technology Limited	Taurus Oil Limited
Highwest Developments Limited	Warren Exploration Limited

Revenue in 1976 from the Company's Beaverlodge operations was well below the 1975 level, which reflected a special delivery from inventory. The 1976 deliveries more closely matched the productive capacity of the mine.

At year-end, the Company held contracts for the delivery of 13,177,000 pounds of U_3O_8 through to 1986. Most of the deliveries prior to 1979 will be made at prices established several years ago, subject to escalation. The prices for deliveries to be made after 1978 will be determined on a basis that takes into account world market conditions for uranium at the time of delivery.

During the year, a spot sale for delivery of 335,000 pounds of U_3O_8 in 1977 was entered into at prevailing market prices. In addition, the Company concluded an agreement to lend mine concentrates to Agnew Lake Mines Limited, a new Canadian producer, on terms that should provide substantial revenues over the next several years.

TONS OF ORE MINED
(Thousands of tons)

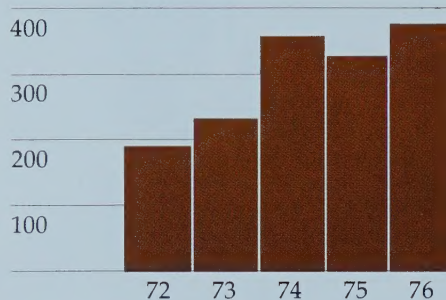


MINING

Ore production at 195,535 tons was 16 per cent higher than in 1975, and approached the level attained in the early 1970s.

Unit costs increased during 1976, despite the significant increase in production volume. Productivity for the year was adversely affected by a high turnover rate and the general lack of skilled miners available in Canada. More stringent environmental controls and escalating costs of materials and services also added significantly to the cost of production.

INDEX OF COST PER TON MINED
(1970 = 100)



MILLING

Production of mine concentrates or "yellowcake" reached 1,187,846 pounds of U_3O_8 in 1976, a gain of roughly 20 per cent over the 1975 level.

The fluctuation in the average mill recovery (see Table) reflects the complex nature of the Beaverlodge ores and the different levels of throughput. The variation in the average grade of ore is attributable to selective mining of the underground orebodies and of small surface deposits.

U_3O_8 PRODUCTION
(Thousands of pounds)



CAPITAL EXPENDITURES

Work continued through 1976 on the five-year expansion program, first announced in 1974, to bring production back to the levels attained in the 1960s.

During the year, over \$9 million was spent on this program.

As part of a \$12 million housing project to provide accommodation for the increasing workforce required at Beaverlodge, work was nearing completion at year-end on 80 new housing units. These include a 30-unit apartment block, 26 "cluster" homes, and 24 single family homes. The program will continue through to 1978.

The Company's hydroelectric dam at White Lake was replaced during the year at a cost of \$1.5 million. The higher elevation of the new dam makes possible an increase in electrical generating capacity and thus a larger power supply to the mine and mill as well as to the Uranium City and district community of 2,500.

THE ENVIRONMENT

During the year, a separate environmental control group was established in Western Operations to focus on all environmentally related projects at the mine. Major emphasis was placed on mine ventilation, improvements in the tailings waste management systems, and co-operation with the Atomic Energy Control Board on removal of low-level contaminated material from Uranium City.

PERSONNEL

With the significant expansion program now underway, an overall increase in manpower of 40 per cent will be necessary by 1979. For some classifications of miners, the increase will be in the order of 200 per cent.

Accordingly, the Company has launched a comprehensive program to improve the effectiveness of recruiting, and in particular to increase the retention rate. The program includes special efforts to recruit, train and retain native peoples in the area.

A new two-year collective bargaining agreement was concluded, effective April 11, 1976, with Local 913 of the United Steelworkers of America, although at year-end the contract awaited AIB approval.

ORE RESERVES

Underground mine development was intensified during the year. Diamond drilling totalled more than 80,000 feet, almost double the 1975 footage and far above the annual levels of the past

several years. Due to these efforts, the Company's net ore reserves increased by 383,000 tons during the year.

Measured ore reserves at Beaverlodge as of January 1, 1977 were 3.47 million tons at an average grade of .21 per cent U_3O_8 , about the same as they were 20 years ago, although in the past two decades Eldorado has extracted over 33 million pounds of U_3O_8 from the workings of the Beaverlodge operations.

TRANSPORTATION

The main supply link for the Beaverlodge operations is provided by Eldorado's subsidiary, Eldorado Aviation Limited, operating DC3 and DC4 aircraft out of Edmonton. In addition, the fleet includes an S-55 Sikorsky and Bell G-2 helicopters. Passenger traffic to and from Beaverlodge in 1976 was up 11 per cent from a year earlier and freight increased 17 per cent.

Eldorado Aviation also continued to provide air support for Northern Transportation Company Limited's operations in the Mackenzie River System and the Arctic, and general helicopter support both for the Beaverlodge operations and the northern activities of Eldorado's Exploration Division.

Between May and October, the mine relies on barge supply by Northern Transportation, which in 1976 delivered about 15,000 tons of freight to Beaverlodge (almost half of it fuel). A winter road to Uranium City was also used last year to transport construction materials and bulk chemicals.

	1976	1975	1974	1973	1972
Tons of ore mined (thousands)	196	168	167	204	203
Average grade of ore mined	.324%	.302%	.351%	.374%	.345%
Average mill recovery	94.3%	97.2%	97.7%	91.9%	95.2%
Pounds of U_3O_8 produced (thousands)	1,188	986*	1,148	1,403	1,335

* amended

REFINERY OPERATIONS

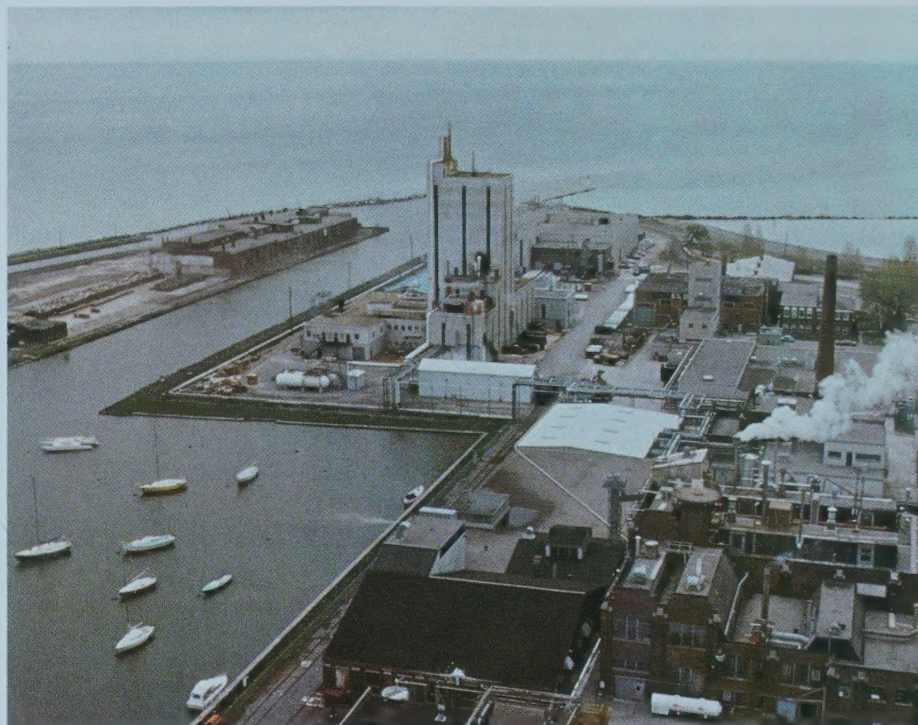
Revenue from total refinery services increased substantially in 1976, reflecting early results from the continuing expansion program, as well as aggressive marketing. Sales revenue from uranium hexafluoride (UF_6) refining services almost doubled over 1975 levels.

The demand for UF_6 conversion improved considerably over the year as forecasts of worldwide shortfalls in production capacity for the early 1980s prompted utilities to secure commitments for this vital component of the nuclear fuel cycle. Several major contracts for UF_6 conversion services were executed during the year, primarily with Japanese customers, and a number of additional agreements are expected to be concluded early in 1977.

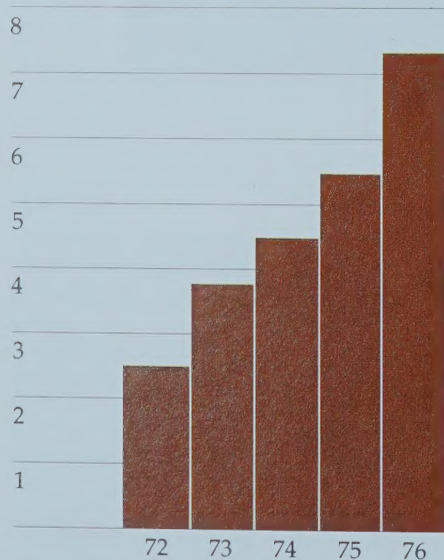
URANIUM HEXAFLUORIDE

During 1976, about 7.3 million pounds of uranium was produced in the form of UF_6 for the export market.

As the chart indicates, UF_6 production has been growing at an average rate of 30 per cent per year in recent years. In response to an even faster growth in world demand, the Company is planning to triple its production capacity in the early 1980s by the construction of a new facility in Ontario.



URANIUM AS UF_6
(Millions of pounds)

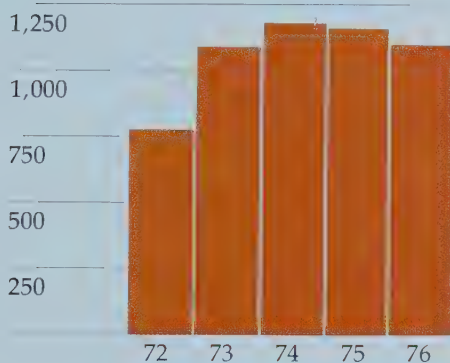


URANIUM DIOXIDE

Eldorado is the sole supplier of the UO_2 powder used in the CANDU nuclear-powered generating stations in Ontario and Quebec. During the year, plans were made to construct a new processing circuit of significantly higher capacity to meet the forecast needs of Canadian utilities into the mid-1980s.

A major advance during the year was the introduction of production of ceramic UO_2 using Eldorado's new ammonium uranate process, developed in three years of intensive work by the Company's Research and Development Division in collaboration with operating personnel. The new process will enable the Company, for the first time, to produce UO_2 without generating nitrate wastes, thereby substantially reducing the environmental impact of this operation.

URANIUM AS UO_2
(Thousands of pounds)



CAPITAL EXPENDITURES

Several major projects were carried out during the year at the Port Hope refinery, including continuation of the UO_3 plant expansion begun in 1974.

During the year, Eldorado also completed its preliminary examinations of 17 potential Ontario sites for a new 10,000 tons U per annum uranium refinery. On January 7, 1977 it announced that Port Granby, nine miles west of Port Hope, was the Company's preferred site for an integrated refining and waste-management complex.

As part of the approvals process for such a facility, the Company at year-end was continuing a detailed environ-

mental impact assessment as required by federal and provincial authorities. The findings will be incorporated in an Environmental Impact Statement expected to be completed in 1977. This will be available for public examination and will be subject to public hearings. To ensure that residents of the area become fully informed on the Company's operations and plans, Eldorado has embarked on a comprehensive information program.

In Saskatchewan, feasibility studies continued on the possibility of locating a refinery in the province during the 1980s.

THE ENVIRONMENT

At the Port Granby residue management area, a number of steps were taken to prevent erosion in the older waste-burial areas, to improve surface run-off, and reduce the infiltration of the waste by rainwater. Plans were also made for the construction of a system to remove radium and arsenic from the run-off streams using a chemical process, acceptable to the AECB, that has been developed by the Company.

In addition to the development of a new UO_2 process, other environmentally related projects included methods for the reduction in volume of solid wastes generated in the refining process and the installation of new scrubbers and back-up filters to further improve the dust collection systems in the UF_6 plant.

PERSONNEL

The number of employees at the Port Hope refinery increased by 14.6 per cent in 1976 to a total of 385 at year-end. This growth was necessitated by higher production and increased emphasis in the environmental and security areas.

Despite a brief strike at the refinery, labour relations remained satisfactory throughout the year. A new 18-month collective bargaining agreement was concluded with the United Steelworkers of America effective October 1, 1976.



INCOME AND EARNINGS

Sales of products and services for the year were \$47,707,734, a slight reduction from 1975. The decline was chiefly the result of a decrease in mine concentrates deliveries from the 1975 level, which had included a spot sale from inventory. This decrease more than offset the near doubling of UF₆ conversion service sales. Other revenue increased slightly, resulting from income on a mine concentrates loan concluded during 1976.

Current operating costs continued to escalate during 1976 as a result of higher costs for labour, materials and supplies. Mine concentrates costs increased dramatically, as did UO₂ conversion costs. UF₆ conversion cost increases were offset in great measure by higher throughput.

Gross profit for 1976 was \$13,097,171 resulting in a decrease in gross profit margin from 34.5 per cent for 1975 to 27.4 per cent. This decline was caused primarily by the delivery of higher-cost mine concentrates inventory and the change in product mix to lower-margin refinery services.

Net earnings were down 58 per cent, from \$9,714,642 in 1975 to \$4,045,160 for the year 1976. Net exploration expenses increased significantly as the Company absorbed the full cost of an aggressive exploration program initiated prior to the withdrawal of a \$15 million grant from the federal Government. Other expenditure increases reflect the continued emphasis on research and development programs and greater environmental costs.

No income taxes are payable for 1976, in large part due to the availability of loss carry forwards from prior years. The Company does not expect to be in a tax-paying position until 1978.

CHANGES IN FINANCIAL POSITION

Working capital decreased by \$12 million to \$57,639,370 in 1976, chiefly due to the significant cash outflow during the year for expansion projects and the use of idle inventory for revenue generating loans. However, even with the reduction, the current ratio remains high at 9.7.

CAPITAL EXPENDITURES

A significant increase was experienced in capital expenditures, from \$6,261,962 in 1975 to \$16,201,150 in 1976. The

Beaverlodge operations recorded a 157 per cent increase as the expansion program announced in 1974 continued. The Refinery Division's 143 per cent increase was mainly due to land purchase, engineering and other costs related to the planned new UF₆ refinery, and to expansion programs at Port Hope.

For the coming year, capital expenditures are expected to be double the 1976 level, as the expansion programs initiated in prior years continue and construction begins on the new UF₆ refinery. Over the next five years, the Company has plans to commit approximately \$250 million to new capital expenditures to expand the productive capacity of all major product lines.

FINANCING

Line-of-credit financing was again necessary, although all balances were repaid within several weeks of draw-down.

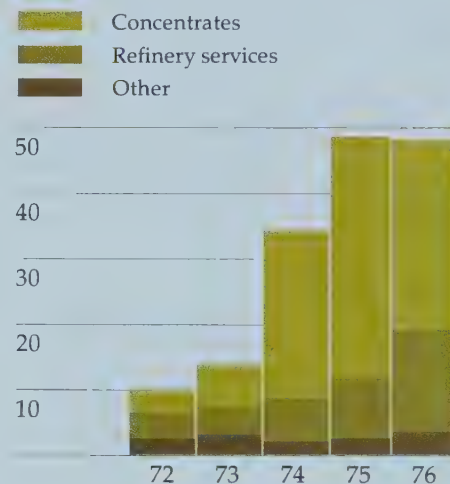
Long term debt to Canada increased slightly, as interest was accrued under the terms of the Company's financing arrangements with the Government. Payments of principal and interest will be resumed in 1978, with full repayment by December 31, 1984.

In view of the level of expenditures contemplated for the future, and particularly the construction costs associated with the new refinery, additional funds will be required. Accordingly, the Company has made plans to obtain financing during the next year from commercial sources, based upon its sound financial position and strong earnings potential.

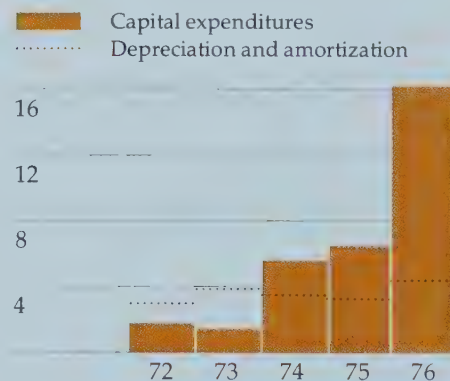
EQUITY

The capital stock of the Company remained unchanged for the year, with 70,500 no par value shares outstanding, and no dividends were paid. Retained earnings increased 8.9 per cent to \$49,540,588, resulting in a total Shareholder's equity of \$56,126,668 as of December 31, 1976.

REVENUE
(Millions of dollars)



CAPITAL EXPENDITURES
(Millions of dollars)



ELDORADO NUCLEAR LIMITED

STATEMENT OF ACCOUNTING POLICIES

The Company's accounting policies are in accordance with industry practices and conform to generally accepted accounting principles. The following policies are considered to be significant.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Eldorado Aviation Limited.

INVENTORIES

Inventories of mine concentrates and refined products are valued at the lower of cost or net realizable value.

Cost for mine concentrates is determined on a weighted average basis, and for refined products, on a first-in, first-out basis.

SUPPLIES

Operating and general supplies are carried at cost.

PROPERTY AND EQUIPMENT

Assets are carried at cost. Costs of additions, betterments and renewals are capitalized. When assets are retired or sold, the resulting gains or losses are reflected in current earnings.

Maintenance and repair expenditures are charged to cost of production.

DEPRECIATION

The principal depreciation methods used are the unit of production method for mining operations at a rate that would fully amortize the costs of assets over ten years' productive capacity and, for other operations, the straight line method based on ten years' estimated life.

MINE DEVELOPMENT AND PREPRODUCTION COSTS

Mine development costs incurred in shaft sinking programs and refinery preproduction costs are deferred until commencement of production. These costs are then amortized on a unit of production basis ensuring full amortization over ten years of capacity output. Other mine development costs are charged to production as incurred.

RESEARCH AND DEVELOPMENT AND EXPLORATION COSTS

Expenditures for applied research and development relative to the products and processes of the Company are charged against earnings as incurred.

Expenditures for geological exploration programs are charged against earnings as incurred.

PENSION PLAN

The Company has a contributory fixed benefit trustee pension plan covering all of its regular full-time employees. Annual pension costs are funded at rates confirmed by the consulting actuary pursuant to periodic actuarial valuations.

SALES OF PRODUCTS AND SERVICES

In accordance with normal industry practices, the Company contracts for future delivery of mine concentrates and refinery conversion services. Sales revenue is recorded in the period that title passes and/or delivery is effected.

ELDORADO NUCLEAR LIMITED
STATEMENT OF CONSOLIDATED EARNINGS AND RETAINED EARNINGS

For the year ended December 31st	1976	1975
Income		
Sales of products and services	\$47,707,734	\$48,499,229
Expenses		
Cost of products and services sold	34,610,563	31,747,646
Research and development	1,282,285	1,341,254
Exploration	4,175,081	3,098,370
Administration	2,526,508	1,865,467
Other income and expense (Note 7)	1,068,137	572,703
	43,662,574	38,625,440
Earnings before income taxes and extraordinary items	4,045,160	9,873,789
Income taxes	248,100	3,289,400
Earnings before extraordinary items	3,797,060	6,584,389
Reduction of income taxes due to loss carry forwards (Note 8)	248,100	3,289,400
Transfer of investment to the Minister of Transport	—	(159,147)
Net earnings	4,045,160	9,714,642
Retained earnings at beginning of year	45,495,428	35,780,786
Retained earnings at end of year	\$49,540,588	\$45,495,428

ELDORADO NUCLEAR LIMITED (Incorporated under the Canada Corporations Act)
STATEMENT OF CONSOLIDATED FINANCIAL POSITION

As at December 31st	1976	1975
Current assets		
Cash and deposit receipts	\$19,453,490	\$27,620,018
Accounts receivable	7,875,167	5,211,968
Mine concentrates on loan (Note 2)	8,517,867	8,510,420
Inventories	22,207,606	28,314,270
Supplies	5,815,698	5,537,961
Prepaid expenses	373,987	229,671
	64,243,815	75,424,308
Current liabilities		
Accounts payable	6,449,408	4,995,904
Advance payments on sales	155,037	1,015,483
	6,604,445	6,011,387
Working capital	57,639,370	69,412,921
Non-current assets		
Mine concentrates on loan (Note 2)	16,324,000	7,598,239
Property and equipment (Note 3)	41,112,631	30,663,240
Deferred charges (Note 4)	3,374,015	3,461,991
Other assets	558,637	363,352
	61,369,283	42,086,822
Capital employed	\$119,008,653	\$111,499,743
Represented by:		
Long term debt (Note 5)	\$59,271,726	\$55,640,229
Advance payments on sales	704,635	896,466
Other liabilities	2,905,624	2,881,540
	62,881,985	59,418,235
Shareholder's equity		
Share capital (Note 6)	6,586,080	6,586,080
Retained earnings	49,540,588	45,495,428
	56,126,668	52,081,508
	\$119,008,653	\$111,499,743

Approved on behalf of the Board of Directors

Marc Bilanger
[Signature]

ELDORADO NUCLEAR LIMITED
STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

For the year ended December 31st	1976	1975
Source of Working Capital		
From Operations:		
Earnings before extraordinary items	\$ 3,797,060	\$ 6,584,389
Add charges to earnings which did not require working capital:		
Depreciation	5,725,494	3,150,834
Amortization	87,976	65,192
Other	24,084	727,019
	9,634,614	10,527,434
Interest on long term debt (Note 5)	3,361,498	2,595,554
Reduction of income taxes due to loss carry forwards	248,100	3,289,400
Advance payments on sales	—	302,067
	13,514,212	16,714,455
Use of Working Capital		
Increase (Decrease) in long term loans of mine concentrates	8,725,761	(2,456,849)
Additions to property and equipment	16,174,885	6,237,162
Increase in deferred charges	—	53,330
Maturing advance payments on sales	191,832	65,012
Increase (Decrease) in other assets	195,285	(68,387)
	25,287,763	3,830,268
Increase (Decrease) in working capital	(11,773,551)	12,884,187
Working capital at beginning of year	69,412,921	56,528,734
Working capital at end of year	\$57,639,370	\$69,412,921

ELDORADO NUCLEAR LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31st, 1976

1
ACCOUNTING POLICIES

A statement of significant accounting policies of the Company is provided on page 12.

2
MINE CONCENTRATES ON LOAN

Mine concentrates on loan are segregated from inventory and recorded at cost, which is lower than net realizable value. These costs are classified as either current or non-current assets, according to estimated or scheduled repayments.

Income from the mine concentrates on loan is included in current earnings.

3
PROPERTY AND EQUIPMENT

	1976	1975
Land	\$ 3,306,650	\$ 1,312,028
Buildings	33,542,502	25,255,942
Equipment	66,858,055	60,180,940
Construction in progress	1,824,520	2,811,540
	<u>105,531,727</u>	<u>89,560,450</u>
Less accumulated depreciation	64,419,096	58,897,210
	<u>\$ 41,112,631</u>	<u>\$30,663,240</u>
Depreciation for year	\$ 5,725,494	\$ 3,150,834

Depreciation for 1976 includes a charge of \$1.7 million based upon a change in the estimated remaining useful lives of certain assets.

4
DEFERRED CHARGES

	1976	1975
Mine development-shaft sinking	\$ 2,714,407	\$ 2,714,407
Refinery preproduction	659,608	747,584
	<u>\$ 3,374,015</u>	<u>\$ 3,461,991</u>
Amortization for year	\$ 87,976	\$ 65,192

ELDORADO NUCLEAR LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31st, 1976

5

LONG TERM DEBT — NOTES PAYABLE TO GOVERNMENT OF CANADA

	1976	1975
8 $\frac{3}{8}$ % notes due 1978-80	\$10,397,321	\$10,397,321
7 $\frac{1}{16}$ % note due 1978	1,064,433	1,064,433
7% note due 1979	7,129,592	7,129,592
5 $\frac{7}{16}$ % notes due 1980	11,547,739	11,547,739
4 $\frac{1}{2}$ % notes due 1981	7,761,755	7,761,755
6 $\frac{1}{2}$ % notes due 1982	10,062,226	10,062,226
5 $\frac{7}{8}$ % notes due 1983	5,081,606	5,081,606
6 $\frac{3}{8}$ % notes due 1984	6,227,054	2,595,557
	\$59,271,726	\$55,640,229

Prepayment of the notes may be made in specified groups without premium or penalty.

Payment of interest on loans may be deferred until December 31, 1977. All deferred interest payments are supported by notes carrying a 6 $\frac{3}{8}$ % interest rate.

6

SHAREHOLDER'S EQUITY

	1976	1975
Authorized:		
110,000 shares of no par value		
Issued and fully paid:		
70,500 shares to Canada	\$ 6,586,080	\$ 6,586,080

7

OTHER INCOME AND EXPENSE

	1976	1975
Expenses —		
Interest on loans from Canada	\$3,631,498	\$3,519,266
Miscellaneous	34,120	536,977
Income —		
Interest and other non-operating items	\$(1,623,733)	\$(1,095,229)
Government of Canada grants for exploration	(973,748)	(2,388,311)
	\$ 1,068,137	\$ 572,703

ELDORADO NUCLEAR LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31st, 1976

8

INCOME TAXES

At December 31st, 1976, the Company had tax benefits on an accounting income basis of \$8,111,000 not recognized in the accounts. Included therein was a loss carry forward for tax purposes of \$1,476,000 which expires in 1977. In addition, at December 31st, 1976, the Company had accumulated earned depletion allowances of \$641,000, which are available to reduce future taxable income.

9

SUPPLEMENTARY INFORMATION

- a) The Company's by-laws provide for nine Directors. At December 31, 1976 the Company had nine Directors and nine Officers. Two of the Directors are also Officers. Remuneration of Officers as Officers in 1976 totalled \$274,000 and remuneration of Directors as Directors in 1976 totalled \$21,667.
Interest bearing housing assistance loans totalling \$95,000 were granted to Officers, under the Company's policy which provides assistance to senior professional employees relocating from a lower cost to a higher cost housing area.
- b) During 1976 sales commissions totalling \$192,951 were paid to Marubeni Corporation and Wambesco International bv, who have been retained as sales agents since 1960.
- c) The pension plan actuarial report as of December 31, 1973 revealed a surplus. However, employee earnings increases at rates higher than estimated by the actuary, combined with the depressed value of marketable securities during the years 1974 and 1975, have resulted in an estimated deficiency of \$1.7 million as established in an interim report as of December 31, 1975 on the position of the trust fund. The actuarial report as of December 31, 1976, currently in preparation, will determine the amount of special contributions required from the Companies pursuant to the Trust Deed and the Pension Benefits Standards Act.
- d) The Company is subject to restraint of profit margins, prices, dividends and employee compensation under the federal Anti-Inflation Act and Regulations.
- e) The Company has granted an option to borrow a quantity of mine concentrates not to exceed 1.4 million pounds U.S. This option expires on December 31, 1977. In the event of possible timing differences between drawdown of the option and the availability of concentrates from internal sources, the Company will make alternate arrangements to fulfill commitments.
- f) Certain 1975 accounts have been reclassified for comparison purposes.

10

CONTINGENCIES

- a) The Atomic Energy Control Board has notified the Company that after December 31st, 1976 export permits will not be approved for shipments to customers in countries which have not entered into nuclear safeguards arrangements satisfactory to Canada.

The Atomic Energy Control Board has assured the Company that the Government has been working continuously in an effort to obtain the required agreements and will continue its efforts until suitable safeguards arrangements are finalized.

During the year 1977, the Company has commitments to customers in three countries (Germany, Sweden and Japan), affected by the suspension of export permits. Sales revenue from these customers in 1976 totalled \$10.5 million, and budgeted sales for 1977 total \$23.6 million. It is expected that any deliveries postponed in 1977 would be re-scheduled for shipment following the signing of the safeguards agreements. Therefore, in the longer term, it is not expected that the Company will be adversely affected.

- b) In connection with its operations, the Company is the defendant in certain pending or threatened litigations. It is the opinion of management, based on legal counsel, that these actions will not result in any significant liabilities to the Company.

March 4th, 1977

The Honourable
Alastair W. Gillespie, P.C., M.P.,
Minister of Energy,
Mines and Resources,
House of Commons,
Ottawa, Ontario.

Dear Sir:

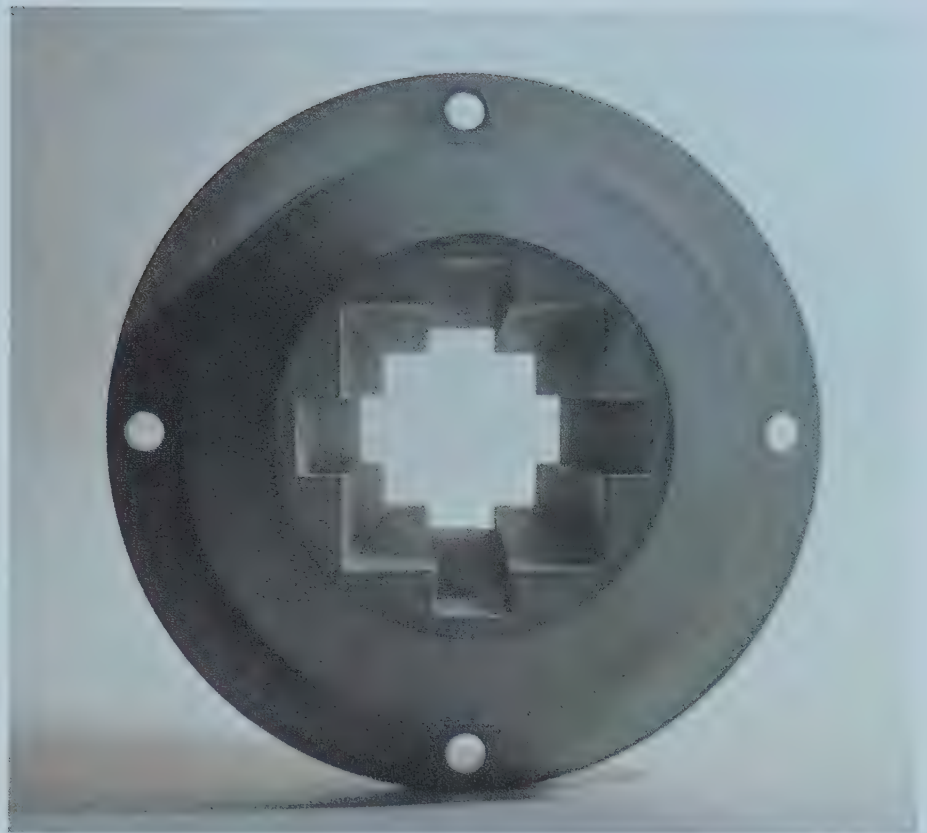
I have examined the statement of consolidated financial position of Eldorado Nuclear Limited as at December 31, 1976 and the statements of consolidated earnings, retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion these consolidated financial statements give a true and fair view of the financial position of the corporation as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

I further report that, in my opinion, proper books and accounts have been kept by the corporation, the financial statements are in agreement therewith and the transactions that have come under my notice have been within its statutory powers.

Yours sincerely,

J. J. Macdonell
Auditor General of Canada.



Uranium casting,
produced at Port Hope refinery.



ELDORADO NUCLEAR LIMITED
5-YEAR SUMMARY OF OPERATIONS

	1976	1975	1974	1973	1972
INCOME AND EXPENSES (\$000)					
Sales	\$47,708	\$48,499	\$34,130	\$14,716	\$ 9,730
Gross profit	13,097	16,752	11,070	1,444	28
Net earnings (loss)	4,045	9,715*	2,638	(2,942)	(3,641)
— per share	\$ 57.38	\$137.80	\$ 37.42	\$(41.73)	\$(51.64)
BALANCE SHEET (\$000)					
Working capital	\$57,639	\$69,413	\$56,529	\$62,251	\$46,131
Net property and equipment	41,113	30,663	27,577	25,219	26,271
Total assets	125,613	117,511	108,864	99,048	95,643
Long term debt	59,272	55,640	53,045	54,763	39,466
Shareholder's equity	56,127	52,081	42,367	39,729	42,671
CAPITAL OUTLAYS (\$000)					
Capital expenditures	\$16,201	\$ 6,262	\$ 5,406	\$ 1,347	\$ 1,356
Depreciation and amortization	5,813	3,216	3,506	3,947	3,107
FINANCIAL RATIOS					
Gross profit margin	27.4 %	34.5 %	32.4 %	9.8 %	.3 %
Return on equity	7.2 %	18.6 %	6.2 %	(7.4) %	(8.5) %
Return on capital employed	3.4 %	8.7 %	2.7 %	(3.0) %	(4.3) %
Debt to capital employed	.50	.50	.54	.56	.47
Interest coverage ratio	2.1	3.8	1.7	N.A.	N.A.
Current ratio	9.7	12.5	6.3	41.8	5.2
SELECTED OPERATING STATISTICS					
Number of employees at year end	1,105	910	797	750	681
Pounds U ₃ O ₈ produced (000)	1,188	986	1,148	1,403	1,335
UF ₆ processed (000 lbs. U)	7,331	5,433	4,519	3,840	2,572
UO ₂ processed (000 lbs. U)	1,113	1,188	1,194	1,109	776

* A change in the method of accounting for inventories of mine concentrates from first-in, first-out to weighted average cost caused a decrease in reported earnings for 1975 of \$4,061,158.



DIRECTORS

Clement G. Baschenis
Executive Vice-President
Eldorado Nuclear Limited
Ottawa

Marcel Bélanger
Bélanger, Dallaire, Gagnon & Assoc.
Sillery, Quebec

W. J. Bennett
President
The Iron Ore Company of Canada Ltd.
Montreal

Dr. Roger A. Blais
Dean of Research
Ecole Polytechnique
Montreal

Lawrence G. Bonnycastle
Vice Chairman
Canadian Corporate Management
Co. Limited
Toronto

Nicholas M. Ediger
President and Chief Executive Officer
Eldorado Nuclear Limited
Ottawa

J. Gerald Godsoe, Jr.
Stewart, MacKeen & Covert
Halifax

Maurice A. A. C. Swertz, Sr.
Swertz Bros. Construction Ltd.
Weyburn, Saskatchewan

N. G. Van Nest
President
Triarch Corporation Limited
Toronto

OFFICERS

Nicholas M. Ediger
President and Chief Executive Officer

Clement G. Baschenis
Executive Vice-President

M. J. Moreau
Vice-President

Thomas J. Gorman
Vice-President, Finance

Ronald G. Dakers
Vice-President

George Boyce
Vice-President

David J. Elgee
Secretary-Solicitor

Gordon A. Frost
Treasurer

Gordon R. Burton
Assistant Secretary



Housing under construction,
Uranium City, Sask.

ELDORADO
ELDORADO NUCLEAR LIMITED

